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RODELL CORPORATION (1967) LIMITED
AND CONSOLIDATED SUBSIDIARIES

(now owned by Great Northern Capital)

**REPORT TO THE SHAREHOLDERS
AND
CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 1968



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AUDITORS' REPORT

To the Shareholders of
RODELL CORPORATION (1967) LIMITED:

We have examined the consolidated balance sheet of Rodell Corporation (1967) Limited and consolidated subsidiaries as at December 31, 1968 and the consolidated statements of loss and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, except for the matters referred to in Notes 4, 5 and 6 to the financial statements, on a basis consistent with that of the preceding year.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants.

March 12, 1969.
Winnipeg, Manitoba.

RODELL CORPORATION (1967) LIMITED

(Incorporated under The Companies Act, Manitoba)

and Consolidated Subsidiaries

Consolidated Balance Sheet as at December 31, 1968

(with 1967 figures for comparison)

Assets

	<u>1968</u>	<u>1967</u>
CURRENT ASSETS:		
Cash	\$ 4,961	\$ 1,400
Marketable securities—at cost (market value 1967—\$44,119)	—	28,390
Due from shareholders	—	40,995
Accounts receivable (Note 2)	1,790,988	1,527,521
Inventories (Note 3)	3,046,800	3,248,349
Prepaid expenses	31,005	17,182
Total current assets	<u>4,873,754</u>	<u>4,863,837</u>
 INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES (Note 4)	308,954	407,769
 PROPERTY, PLANT AND EQUIPMENT—at cost (Note 5)	3,961,520	3,543,941
Less accumulated depreciation	1,952,096	1,785,491
Net property, plant and equipment	<u>2,009,424</u>	<u>1,758,450</u>
 DEFERRED INCOME TAX CHARGES (Note 6)	13,000	—
 OTHER ASSETS (Note 7)	<u>22,407</u>	<u>45,384</u>
 TOTAL	<u><u>\$7,227,539</u></u>	<u><u>\$7,075,440</u></u>

Approved by the Board:

(Signed) R. H. McISAAC, *Director*

(Signed) G. G. BRANDSON, *Director*

The accompanying notes are an integral part of the financial statements.

RODELL CORPORATION (1967) LIMITED

(Incorporated under The Companies Act, Manitoba)

and Consolidated Subsidiaries

Consolidated Balance Sheet as at December 31, 1968
 (with 1967 figures for comparison)

Liabilities and Shareholders' Equity

	1968	1967
CURRENT LIABILITIES:		
Bank indebtedness (Note 8).....	\$1,644,321	\$1,379,458
Accounts payable and accrued charges.....	838,179	840,153
Income taxes.....	—	1,087
Notes payable mobile equipment—secured.....	544,774	687,786
Current portion of long-term debt.....	91,704	38,034
Due to shareholders.....	20,758	—
Total current liabilities.....	3,139,736	2,946,518
 LONG-TERM DEBT (Note 9).....	 2,181,947	 2,135,130
Less current portion.....	91,704	38,034
Total long-term debt.....	2,090,243	2,097,096
 SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized:		
75,000 6% non-cumulative preferred shares of a par value of \$10 each, redeemable at \$11 each and 1,000,000 common shares without par value		
Issued and fully paid:		
5,000 preferred shares.....	50,000	50,000
560,000 common shares.....	1,120,000	1,120,000
Retained earnings.....	827,560	861,826
Total shareholders' equity.....	1,997,560	2,031,826
TOTAL.....	\$7,227,539	\$7,075,440

The accompanying notes are an integral part of the financial statements.

RODELL CORPORATION (1967) LIMITED
and Consolidated Subsidiaries

**Consolidated Statement of Loss and Retained Earnings
for the Year Ended December 31, 1968**
(with 1967 figures for comparison)

	1968	1967
NET SALES.....	\$9,780,264	\$9,483,206
COST OF GOODS SOLD.....	7,212,662	7,165,323
GROSS PROFIT.....	2,567,602	2,317,883
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,657,610	2,452,393
LOSS FROM OPERATIONS.....	90,008	134,510
OTHER INCOME—net.....	13,658	16,908
LOSS BEFORE INCOME TAXES.....	76,350	117,602
PROVISION FOR (RECOVERY OF) INCOME TAXES—current.....	—	(23,797)
—deferred (Note 6).....	6,000	—
LOSS FOR THE YEAR BEFORE SHARE OF SUBSIDIARY LOSS.....	82,350	93,805
SHARE OF LOSS OF NON-CONSOLIDATED SUBSIDIARY (Note 4).....	19,043	—
LOSS FOR THE YEAR.....	101,393	(93,805)
RETAINED EARNINGS AT BEGINNING OF THE YEAR.....	861,826	955,631
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	760,433	861,826
PRIOR YEARS' ADJUSTMENTS:		
Recovery of aircraft major overhaul provision.....	8,734	—
Adjustment of depreciation provision (Note 5).....	58,739	—
Provision for deferred income tax charges (Note 6).....	19,000	—
Assessment of additional income taxes—net.....	(13,088)	—
Share of loss of non-consolidated subsidiary (Note 4).....	(6,258)	—
Total net credits.....	67,127	—
RETAINED EARNINGS AT END OF THE YEAR.....	\$ 827,560	\$ 861,826

The accompanying notes are an integral part of the financial statements.

RODELL CORPORATION (1967) LIMITED
and Consolidated Subsidiaries

Consolidated Statement of Source and Application of Funds
for the Year Ended December 31, 1968
(with 1967 figures for comparison)

	1968	1967
SOURCE OF FUNDS:		
Charges to operations not involving an outlay of funds:		
Depreciation.....	\$ 271,530	\$ 238,040
Amortization of deferred expenses.....	6,477	1,303
Reduction of deferred income tax charges.....	6,000	—
Share of loss of subsidiary.....	19,043	—
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Less loss for the year:		
\$101,393 add gain on disposal of land \$6,403.....	107,796	—
\$93,805 less loss on disposal of land \$1,966.....	—	91,839
	<hr/>	<hr/>
Funds provided from operations.....	195,254	147,504
Loan from Manitoba Development Fund.....	—	2,000,000
Loan from Minister of Industry—Government of Canada.....	88,918	—
Loan from United Dominions Corporation (Canada) Ltd.....	—	58,867
Proceeds from disposal of fixed assets.....	31,967	103,245
Proceeds from mortgage.....	12,268	—
Proceeds from disposal of investments.....	180,615	—
Recovery of prior year's provision for aircraft overhaul.....	8,734	—
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Total source of funds.....	517,756	2,309,616
APPLICATION OF FUNDS:		
Additions to property, plant and equipment.....	489,329	831,770
Reduction of long-term debt.....	108,039	108,095
Prior years' income taxes—net.....	13,088	—
Investment in and advances to subsidiaries.....	88,301	159,074
Purchase of miscellaneous investments.....	—	14,708
Deferred expenses—Manitoba Development Fund loan.....	—	25,907
Redemption of preferred shares (including premium and tax).....	—	26,656
Increase in cash surrender value of life insurance.....	2,300	2,100
	<hr/>	<hr/>
Total application of funds.....	701,057	1,168,310
DECREASE (INCREASE) IN WORKING CAPITAL FOR THE YEAR.....	183,301	(1,141,306)
WORKING CAPITAL AT BEGINNING OF THE YEAR.....	1,917,319	776,013
WORKING CAPITAL AT END OF THE YEAR.....	\$1,734,018	\$1,917,319

The accompanying notes are an integral part of the financial statements

RODELL CORPORATION (1967) LIMITED

and Consolidated Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 1968

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for 1968 reflect the financial position and the results of operations of Rodell Corporation (1967) Limited and the consolidated subsidiary companies; Wescore Drilling Limited, Rodell Gillam Services Ltd., Delro Industries Limited and Midwest Diamond Drilling (1958) Ltd.

The remaining subsidiaries have not been consolidated as it is the company's view that a more meaningful presentation of its financial position and results of operations may be obtained from these consolidated financial statements together with the information supplied in Note 4.

2. ACCOUNTS RECEIVABLE

	1968	1967
Trade—drilling contracts	\$ 709,728	\$ 700,666
—instalment and other trade accounts	704,594	729,065
Due from affiliated companies	12,390	12,332
Due from unconsolidated subsidiary	11,182	—
Due from employees	25,099	23,677
Other	380,264	116,324
	<u>1,843,257</u>	<u>1,582,064</u>
Less allowance for doubtful accounts	52,269	54,543
	<u>\$1,790,988</u>	<u>\$1,527,521</u>

3. INVENTORIES

	1968	1967
Mobile equipment, parts and rental equipment valued at the lower of cost and net realizable value	\$1,287,970	\$1,552,889
Drilling supplies, diamond tools and repair parts valued at laid down cost less an allowance for deterioration on used materials	833,522	753,044
Raw materials, work in progress, manufactured tools and supplies, valued at cost less an allowance for obsolescence	925,308	942,416
	<u>\$3,046,800</u>	<u>\$3,248,349</u>

4. INVESTMENT IN AND ADVANCES TO SUBSIDIARY COMPANIES

Canadian Cutting and Coring Limited—cost less accumulated deficit	\$ 308,952
Rodell International Inc.—at nominal value	1
Columbia Forest Products Ltd.—at cost	1
	<u>\$ 308,954</u>

The company's investment in Canadian Cutting and Coring Limited consists of shares costing \$50,000 and advances of \$284,253, less \$25,301 representing the company's share of the deficit of this subsidiary since acquisition, of which \$19,043 is attributable to the current year and \$6,258 to the previous year. In 1967 this investment was carried at cost.

The investment in Rodell International Inc., was written down during the year, to a nominal value. The loss of \$48,939 was previously reflected in consolidated retained earnings.

Under an agreement dated October 26, 1967, with the Manitoba Development Fund, the company acquired a 74.36% interest in Columbia Forest Products Ltd., with the option to purchase the remaining shares for an additional \$1. The plant was not fully operative during 1968 as a major expansion in the plant facilities required under the agreement will not be completed until early in 1969. The company's share in the deficit of this subsidiary since acquisition amounts to \$76,021, of which \$33,020 is attributable to the nine-month period ended December 31, 1968.

The company's equity in the net assets of Columbia Forest Products Ltd. based on the subsidiary's audited financial statements for the period ended December 31, 1968 was \$2,909 in excess of the investment.

5. PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and related accumulated depreciation at December 31, 1968, were as follows:

	Property plant and equipment	Accumulated depreciation	Rate
Buildings	\$1,458,766	\$ 400,760	3½-6⅔%
Plant equipment	1,337,288	809,766	12½%
Automotive equipment	647,018	529,609	25%
Furniture and fixtures	216,237	147,991	10%
Aircraft	162,775	63,970	20%
	3,822,084	1,952,096	
Land	139,436	—	
	<u>\$3,961,520</u>	<u>\$1,952,096</u>	

At the beginning of the year the company changed its depreciation method from the declining balance to the straight-line, applying the rates shown above. The effect of this change was a decrease in expenses of \$26,662 for the year, and an increase in retained earnings for the prior years of \$58,739. The total amount of depreciation provided for the current year was \$271,530 (1967—\$238,040).

6. DEFERRED INCOME TAX CHARGES

During the year the company changed its method of recording income taxes. At the end of the previous year the company had recorded in its accounts depreciation in excess of capital cost allowance claimed for tax purposes amounting to \$38,000. The resulting estimated deferred charge of \$19,000 was credited to retained earnings.

There are no income taxes payable for the year. The deferred account was reduced by a \$6,000 charge to income resulting from claiming capital cost allowance for tax purposes in excess of depreciation recorded in the accounts.

The balance of this deferred account will be applied to income in future periods if the amounts claimed for tax purposes are greater than the depreciation recorded in the accounts.

7. OTHER ASSETS

	1968	1967
Deferred expenses	\$ 19,430	\$ 25,907
Cash surrender value of life insurance policy	—	16,500
Patents at cost	2,189	2,189
Organization expense at cost	788	788
	<u>\$ 22,407</u>	<u>\$ 45,384</u>

The deferred expenses represent the costs and legal fees pertaining to the Manitoba Development Fund loan. Company policy provides that this expense be amortized over a five-year period.

8. BANK INDEBTEDNESS

1968

1967

The bank indebtedness is secured by a general assignment of book debts, by Section 88 security on inventory, and by providing security in the form of \$2,500,000 of 6% mortgage bonds dated August 1, 1963, payable to bearer on demand, which have been issued as collateral. The revised trust deed provides as security a fixed and floating charge on all assets second to claims of the Manitoba Development Fund

\$1,644,321	\$1,379,458
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9. LONG-TERM DEBT

Amount	Current portion
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Manitoba Development Fund 7½% loan

\$2,000,000	\$ 50,093
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This is governed by a trust deed which provides as security a first mortgage on all real estate, a chattel mortgage on all equipment and a first floating charge on other assets excepting book debts and inventories as comprehended under Section 88 of the Bank Act. Monthly payments of principal and interest amounting to \$16,344 will commence January 1, 1969.

United Dominions Corporation (Canada) Ltd.

58,867	38,386
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Secured by a conditional sales contract on an aircraft, repayable in monthly instalments of \$3,497 including interest, with maturity at June 30, 1970.

Minister of Industry—Government of Canada

88,918	—
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This loan was made under an agreement with the Minister of Industry to purchase equipment related to improving the company's position in the Defence Export Market.

Title to the equipment remains with the Minister until such time as full payment of the debt has been made. Annual payments of \$19,829 will commence January 1, 1970, on through to 1973 with the balance due on or before January 1, 1974. The debt carries no interest charges.

Sundry

34,162	3,225
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Secured by mortgages on four residential properties acquired with respect to employees, repayable in monthly instalments of \$508 including interest and with maturity dates ranging from 1970 through 1989.

TOTAL

\$2,181,947	\$ 91,704
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10. CONTINGENT LIABILITIES

The company is contingently liable as at December 31, 1968, for the following:

Guarantor of customers' notes discounted amounting to \$571,347.

Guarantor of the Manitoba Development Fund loan to Columbia Forest Products Ltd. to the extent of \$250,000 for which the company can become liable only if it defaults under its agreement with Manitoba Development Fund to manage Columbia Forest Products Ltd.

